

Ad

1 1. Q. Please state your name and business address.

2
3 A. My name is Lee H. Whitcher. My business address is 213 S. Main Street, Waterloo,
4 Illinois 62298.

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6
7 2. Q. By whom are you employed and in what capacity?

8
9 I am employed by Harrisonville Telephone Company as Senior Cost and Rate
10 Analyst.

11
12
13 3. Q. Please outline your educational background and business experience.

14
15 A. I graduated from Luther College at Decorah, Iowa in 1985 with a Bachelor of Arts
16 degree in accounting. I was registered as a Certified Public Accountant in 1987.
17 Upon graduation in 1985, I was employed by Kiesling Associates, CPA as a staff
18 accountant in their Springfield, Illinois office. From 1988 through 1994 I was
19 employed by Clifton Gunderson, CPA in their Springfield, Illinois and Macomb,
20 Illinois offices. While at Clifton Gunderson, I had the positions of Supervisor and
21 Manager. During my experiences with Kiesling Associates and Clifton
22 Gunderson, I worked extensively with independent telephone companies and
23 cooperatives in Illinois and throughout the Midwest providing accounting,
24 auditing, tax and consulting services. While at Clifton Gunderson, my practice
25 also included accounting, auditing and tax services for governmental agencies,
26 non-profit organizations, colleges, construction contractors and other industries.
27 In 1994, I accepted a position as accountant with Harrisonville Telephone
28 Company, and was promoted to Senior Cost and Rate Analyst in 1999. I have
29 responsibilities at Harrisonville in a variety of areas including accounting,
30 financial reporting, financial analysis, tax, carrier access billing and regulatory
31 operations. I am a member of the American Institute of Certified Public
32 Accountants and the Illinois CPA Society. I also serve on the Illinois
33 Telecommunications Association Accounting Committee, as a member of the
34 Board of Directors for the Illinois Independent Telephone Association and as
35 President of the Board of Directors of the Illinois Telecommunications Access
36 Corporation.

37
38
39 4. Q. What is the purpose of your testimony?

40
41 A. The purpose of my testimony is to present the results of the Illinois Universal
42 Service Funding Calculation, or earnings analysis, for Harrisonville Telephone
43 Company. This analysis is being presented to determine whether the Company

1 qualifies for state Universal Service support based on its rate of return.
2
3

4 5. Q. Does your testimony include any exhibits, and were these prepared by you or under
5 your direction?
6

7 A. Yes, my testimony includes Harrisonville Telephone Company Exhibit 1,
8 Schedule 1.01 and Exhibit 2, Schedules 2.01, 2.02, 2.03 and 2.04, each of which
9 was prepared by me.
10
11

12 6. Q. What is the source of the amounts used in the Company's earnings analysis?
13

14 A. Harrisonville Telephone Company Exhibit 1, Schedule 1.01 attached to my
15 testimony shows the results of the Company's Illinois Universal Service Funding
16 Calculation using the format agreed to by the staff and the IITA. The data used in
17 this calculation was obtained from the Annual Report of Harrisonville Telephone
18 Company to the Illinois Commerce Commission Form 23A for the calendar year
19 ended December 31, 2000, except for line 2, materials and supplies, which
20 represents a 13 month average. The Company has also provided a copy of its trial
21 balance to commission staff in support of its Exhibit 1, Schedule 1.01.
22
23

24 7. Q. Have you provided the requisite information from Harrisonville Telephone
25 Company Exhibit 1, Schedule 1.01 to Mr. Schoonmaker for his use in compiling the
26 composite results for all companies seeking funding in connection with his
27 testimony?
28

29 A. Yes, I have.
30
31

32 8. Q. Is Harrisonville Telephone Company Exhibit 1, Schedule 1.01 true and correct to
33 the best of your knowledge, information and belief?
34

35 A. Yes, it is.
36
37

38 9. Q. Please summarize the results of the Company's earnings analysis shown on
39 Harrisonville Telephone Company Exhibit 1, Schedule 1.01.
40

41 A. This analysis shows on line 23 that the Company has a return on rate base, or rate of
42 return (ROR) of 9.16% absent state Universal Service support. The ROR Funding
43 Deficiency including Income Taxes, as shown on line 28, indicates that the

1 Company has a need for state Universal Service support, based solely on the
2 Company's earnings level, in the amount of \$1,064,529. These results reflect a
3 reduction to Total Operating Revenues by subtracting Illinois High Cost Fund
4 support on line 15, and an adjustment to Total Operating Revenues on line 14 of
5 \$249,301. These items will be explained below.
6

7 10. Q. Why are total operating revenues on line 14 reduced by an amount for the Illinois
8 High Cost Fund on line 15?
9

10 A. The \$1,063,557 on line 15 was the total support received by Harrisonville
11 Telephone Company from the Illinois High Cost Fund and DEM Fund during the
12 calendar year 2000. Since the purpose of this analysis is to calculate total needed
13 support, this amount must be subtracted in order to achieve an accurate calculation.
14
15

16 11. Q. How many adjustments have you made on the earnings analysis?
17

18 A. The adjustment to Total Operating Revenues on line 14 consists of three
19 individual adjustments that total a reduction to Total Operating Revenues of
20 \$249,301. These adjustments are summarized on Exhibit 2, Schedule 2.01.
21
22

23 12. Q. Please explain the first adjustment that you have made to the earnings analysis?
24

25 A. The first adjustment reflects the increase in Federal High Cost Loop Fund Support
26 (HCLF) the Company will receive during 2001. This adjustment totals \$356,838.
27 The Federal HCLF support received during 2001 is based on national average cost
28 per loop data. This adjustment corresponds to the Staff/IITA standard adjustment
29 #5 as discussed and explained in the Supplemental Direct Testimony of Robert C.
30 Schoonmaker (IITA Exhibit 3.0).
31
32

33 13. Q. When will the change that causes this adjustment actually impact the Company?
34

35 A. The impact of the change in the Company's Federal HCLF was effective in January
36 2001.
37
38

39 14. Q. How long will this change continue to impact the Company's revenues or expenses?
40

41 A. This change will continue to impact the Company's revenue through the end of
42 2001. Changes in the level of Federal HCLF support beyond 2001 are currently
43 unknown.

1
2
3 15. Q. Please explain in detail how this adjustment was calculated?
4

5 A. The exact amount of funding year 2000 Federal HCLF support received by the
6 Company was identified, by quarter, from Universal Service information located on
7 the FCC website. This funding totaled \$1,435,980. Funding year 2001 Federal
8 HCLF support information was also located on the FCC website. 2001 HCLF
9 support information is currently available for the 1st and 2nd quarters. I added the 1st
10 and 2nd quarter 2001 support and multiplied the result by two to achieve an
11 estimated annualized 2001 support total. The estimated annualized 2001 support is
12 \$1,792,818. Therefore, the increase in funding year 2001 Federal HCLF support is
13 \$356,838. A more detailed calculation of this adjustment is shown on Exhibit 2,
14 Schedule 2.02.
15
16

17 16. Q. Please explain the second adjustment that you have made to the earnings analysis.
18

19 A. The second adjustment totals \$316,417 and reflects the decrease in Federal Local
20 Switching Support (LSS) the Company will experience during 2001. The
21 adjustment is due to the fact that Harrisonville Telephone Company will be
22 exceeding 20,000 access lines in 2001. Our year-end 2000 access lines were 19,836
23 and we have been experiencing approximately 3% growth. Per section 36.125 of
24 the FCC Rules, the Interstate Dial Equipment Minutes of Use (DEM) Weighting
25 factor the Company has been allowed to utilize as a multiplier, or to weight its
26 Interstate DEM is 2.5. The DEM Weighting factor is a major component of the
27 calculation of Federal LSS support. With Harrisonville Telephone Company
28 projected to exceed 20,000 access lines in 2001, the DEM Weighting factor that the
29 Company will be using will be reduced to 2.0. By taking the 2000 estimated
30 Federal LSS algorithm and reducing the DEM Weighting factor from 2.5 to 2.0, the
31 Company will lose \$316,416. By reducing the DEM Weighting factor from 2.5 to
32 2.0, certain costs, from a separations standpoint, are being shifted to the Intrastate
33 jurisdiction with no additional cost recovery method in the Intrastate jurisdiction.
34
35

36 17. Q. When will the change that causes this adjustment actually impact the Company?
37

38 A. The impact of the change in the Company's Federal LSS funding was effective in
39 January 2001.
40
41

42 18. Q. How long will this change continue to impact the Company's revenues or expenses?
43

1 A. This change will continue to affect the Company's revenue as long as the
2 Company's access lines remain in excess of 20,000 and the calculation of Federal
3 LSS remains unchanged.
4

5 19. Q. Please explain in detail how this adjustment was calculated.
6

7 A. The Federal LSS algorithm employing a DEM Weighting factor of 2.0 has been
8 utilized by the Universal Service Administrative Company (USAC) to determine the
9 funding year 2001 Federal LSS funding for Harrisonville Telephone Company. A
10 DEM Weighting factor of 2.5 had been used for funding year 2000 calculations.
11 The consulting firm GVNW performed a recalculation for the Company of the
12 algorithm for 2000 using a DEM Weighting factor of 2.0, which is the newly
13 implemented DEM Weighting factor for the Company in the 2001 funding year.
14 The decrease in funding for the Company as a result of the change in the DEM
15 Weighting factor from 2.5 to 2.0 is \$316,417. A more detailed calculation of this
16 adjustment is shown on Exhibit 2, Schedule 2.03.
17
18

19 20. Q. Please explain the third adjustment that you made to the earnings analysis.
20

21 A. The third adjustment to the earnings analysis pertains to a loss of local measured
22 extended area service (MEAS) revenue that was generated by internet usage traffic.
23 Harrisonville Telephone Company provides internet service to customers as a
24 nonregulated activity. The Company appropriately accounts for all items and
25 activity related to internet operations in nonregulated accounts. The internet
26 department of the Company has utilized remote call forwarding arrangements
27 between certain of the Company's exchanges, as internet modems were not
28 physically located in every Company exchange, to enable internet customers to
29 receive internet service without incurring per minute MEAS charges while they
30 utilized the internet. The internet department was responsible for the MEAS
31 charges associated with this internet usage. This activity has been appropriately
32 accounted for by the Company in accordance with the Code of Federal Regulations,
33 Title 47, Part 64, Sec. 901 (b) (1). This section reads, "Tariffed services provided to
34 a nonregulated activity will be charged to the nonregulated activity at the tariffed
35 rates and credited to the regulated revenue account for that service." The internet
36 department has determined that it can improve its financial results by discontinuing
37 two of the remote call forwarding arrangements and replacing them with dedicated
38 circuit facilities. This change will reduce the MEAS cost to the internet department
39 and replace it with recurring monthly costs for the dedicated facilities. The
40 annualized effect of imputing this change as if it had occurred during 2000 is a
41 revenue reduction of \$289,722.
42
43

- 1 21. Q. When will the change that causes this adjustment actually impact the Company?
2
3 A. The change that will cause the decrease in MEAS revenue has already begun to
4 impact the Company and will be fully implemented by May 1, 2001.
5
6
- 7 22. Q. How long will this change continue to impact the Company's revenues or expenses?
8
9 A. This reduction in MEAS revenue will continue indefinitely into the future.
10
11
- 12 23. Q. Please explain in detail how this adjustment was calculated.
13
14 A. The internet department is replacing the remote call forwarding arrangements from
15 the Company's Red Bud exchange to the Waterloo exchange, and also from the
16 Dupo exchange to the Columbia exchange with local channelized T-1 service. The
17 MEAS revenue to the Company in 2000 from these two remote call forwarding
18 arrangements was \$332,106. The annualized dedicated facilities revenue from the
19 new local channelized T-1 service is \$42,384. The difference between these two
20 figures is \$289,722 and represents the net reduction in revenue to the Company. A
21 more detailed calculation of this adjustment is shown on Exhibit 2, Schedule 2.04.
22
23
- 24 24. Q. Are you aware of any other known and measurable changes to the Company's actual
25 calendar year 2000 results that would impact the earnings analysis?
26
27 A. No, I am not aware of any further known and measurable changes.
28
- 29 25. Q. Please summarize your testimony?
30
31 A. The earnings analysis of Harrisonville Telephone Company is shown on the
32 Illinois Universal Service Funding Calculation worksheet, and displays a ROR
33 Funding Deficiency Including Income Taxes based on actual financial results for
34 the year ended December 31, 2000 combined with known and measurable
35 adjustments. The amount of this deficiency is \$1,064,529. Therefore, based
36 solely on the results of the Company's earnings analysis, Harrisonville Telephone
37 Company should receive annual state Universal Service support in the amount of
38 \$1,064,529.
39
- 40 26. Q. Does that conclude your Direct Testimony?
41
42 A. Yes, it does.

Harrisonville Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 33,654,455	\$ -	\$ 33,654,455
2	Materials and Supplies Inventory	Page 2, 13-Month Average	493,263		493,263
3	Customer Deposits	Form 23A, P 8, 4040	49,153	-	49,153
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	3,164,723	-	3,164,723
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			30,933,842
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	10,536,404	-	10,536,404
8	Less: Depreciation Expense	Form 23A, P 13, 6560	3,175,448	-	3,175,448
9	Total WC Operating Expense	line 7 - line 8	7,360,956	-	7,360,956
10	WC OE Requirement	line 9 * 45 / 360			920,120
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			920,120
13	Total Rate Base	line 5 + line 12			31,853,962
14	Total Operating Revenues	Form 23A, P 11, Total	16,714,374	(249,301)	16,465,073
15	Less: Illinois High Cost Fund		1,063,557	-	1,063,557
16	Net Operating Revenues	line 14 - line 15	15,650,817	(249,301)	15,401,516
17	Total Operating Expenses	Form 23A, P 14, Total	10,536,404	-	10,536,404
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	3,583	-	3,583
19	Other Operating Taxes	Form 23A, P 15, 7240	97,169	-	97,169
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	5,013,661	(249,301)	4,764,360
21	Income Tax Expense	line 34			1,845,656
22	Net Operating Income	line 20 - line 21			2,918,704
23	Return on Rate Base	line 22 / line 13			9.16%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			3,570,829
26	Adj to Achieve Target Return on RB	line 25 - line 22			652,125
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			1,064,529
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			4,764,360
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			342,081
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			4,422,279
33	Federal Income Tax Expense	line 32 * 34.00%			1,503,575
34	Total Imputed Income Tax Expense	line 31 + line 33			1,845,656
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Harrisonville Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$489,827
2	January-00	\$495,461
3	February-00	\$559,200
4	March-00	\$591,508
5	April-00	\$573,706
6	May-00	\$594,658
7	June-00	\$498,303
8	July-00	\$453,085
9	August-00	\$437,958
10	September-00	\$449,855
11	October-00	\$484,292
12	November-00	\$391,529
13	December-00	\$393,038
14	13 Month Average	\$493,263

Sale/Lease Back Arrangement

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☐

The company does not have any sale(s)/lease back arrangement.
The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

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The company does not have any lease agreements with affiliates.
The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Harrisonville Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 3,950,229
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 2,018,691
3	State Access Revenues	Trial Balance 12/31/00	\$ 827,340
4	State High Cost Support	Exhibit X, Line 15	\$ 1,063,557
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 241,389
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 8,101,206
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 920,080
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 2,060,708
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 3,222,412
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 523,674
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 6,726,874
12	Misc Revenues	Trial Balance 12/31/00	\$ 1,886,294
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 16,714,374</u>

Harrisonville Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Supporting Documentation for Adjustments

SUMMARY OF ADJUSTMENTS

<u>Line #</u>		<u>Amount</u>	<u>Supporting Schedule(s)</u>
1	Federal Universal Service - High Cost Loop Fund Adjustment	356,838	2.02
2	Federal Universal Service - Local Switching Support Adjustment	(316,417)	2.03
3	Local Measured EAS Revenue Decrease Adjustment	<u>(289,722)</u>	2.04
4	Total Adjustments	<u>(249,301)</u>	

Harrisonville Telephone Company
 Illinois Universal Service Funding Calculation
 Based upon ICC Form 23A Report Data for December 31, 2000
 Supporting Documentation for Adjustments

FEDERAL HIGH COST LOOP FUND SUPPORT ADJUSTMENT

Line #	Month	Year 2000	Month	Year 2001
1	Jan-00	123,515	Jan-01	149,372
2	Feb-00	123,515	Feb-01	149,372
3	Mar-00	123,515	Mar-01	149,372
4	Apr-00	119,093	Apr-01	149,431
5	May-00	119,093	May-01	149,431
6	Jun-00	119,093	Jun-01	149,431
7	Jul-00	118,256		
8	Aug-00	118,256		
9	Sep-00	118,256		
10	Oct-00	117,796		
11	Nov-00	117,796		
12	Dec-00	<u>117,796</u>		
13	Total	<u>1,435,980</u>	Annualized Total	<u>1,792,818</u>
14	Increase in Revenue from Federal Support			<u>356,838</u>
15	<u>Data Source:</u> FCC Website			

Harrisonville Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Supporting Documentation for Adjustments

FEDERAL LOCAL SWITCHING SUPPORT ADJUSTMENT

<u>Line #</u>		
1	2000 Federal Local Switching Support - DEM Weighting Factor = 2.0	
2	(DEM Factor newly implemented for 2001)	632,831
3	2000 Federal Local Switching Support - DEM Weighting Factor = 2.5	
4	(DEM Factor used for 2000, Support Actually Received)	<u>949,248</u>
5	Decrease in Revenue from Federal Support	<u>(316,417)</u>
6	<u>Data Source:</u> Harrisonville Telephone Company OMB Form 3060-0814,	
7	Local Switching Support 2000 Data Collection Form.	

Harrisonville Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Supporting Documentation for Adjustments

MEASURED EXTENDED AREA SERVICE (MEAS) REVENUE DECREASE

<u>Line #</u>		
1	2000 MEAS Revenue - Red Bud to Waterloo Exchanges Internet Remote Call Forwarding	(168,307)
2	2000 MEAS Revenue - Dupo to Columbia Exchanges Internet Remote Call Forwarding	(163,799)
3	Annualized Local Channelized T-1 Service - Red Bud	21,192
4	Annualized Local Channelized T-1 Service - Dupo	<u>21,192</u>
5	Decrease in Revenue	<u>(289,722)</u>
6	<u>Data Source:</u> Harrisonville Telephone Company billing records.	